



July 2015

Stock Market Review

The equities got off to a decent start for FY2015-16 with the benchmark KSE 100 Index rising by around 3.9% during the month driven primarily by reasonable valuations, easy monetary conditions, benign near-term inflation & interest rate outlook, comfortable external account position, and improving law & order situation. Steep fall in the yields on the alternative fixed income avenues such as T-bills, NSS, and PIB underpinned the rally in the stock market over the last couple of months. The ongoing corporate results season so far proved a mixed bag for equities with some companies posting below expected earnings amid impact of super tax announced in federal budget FY16. Announcement of huge allocation for public investment in energy and infrastructure under the China-Pak Economic Corridor (CPEC) and expectation of sovereign rating upgrade buoyed investors' interest in the market. On the other hand, expected damages to the agriculture crops and infrastructure from recent floods and continuing Monsoon rains raised investor concerns about the earnings outlook for 1QFY16 for selected sectors. Foreign investors were net sellers during the month with net out-flows of US \$ 21 million versus US \$ 8 million inflows recorded during the previous month. Trading activity remained robust with average daily trading value of Rs. 14.9 billion.

During the month, Automobile & Parts, Chemicals, Commercial Banks, and Engineering sectors out-performed the market. On the other hand, Oil & Gas Exploration (E&P), Pharmaceuticals, Textile Composite, and Transport sectors lagged behind, while Fertilizer, Oil Marketing Companies, and Cement sectors performed in line with the market. Robust earnings announcements amid healthy volumetric growth and strong margins resulted in the out-performance of Automobile & Parts sector. Attractive valuations and expectation of healthy earnings & payouts announcements buoyed investors' interest in the commercial banks. Recent pick-up in economic activity and high budgetary allocation for infrastructure investment improved the outlook of engineering sector. Recent sharp fall in global crude oil prices post Iran nuclear deal clouded the outlook of E&P sector resulting in its subdued performance. Cement sector performed in line with the market amid soft dispatch numbers during July due to slowdown in construction activity during Ramadan and Eid-holidays.

Currently the stock market is trading at 9.5 times estimated earnings and offers around 4.4% dividend yield. Going forward, we reiterate our optimistic outlook on the stock market driven by relative attractive valuations; improving macroeconomic situation; benign inflation & interest rate outlook; improving geopolitical and law & order situation; and healthy double digit corporate earnings growth. Key risk to our sanguine outlook on the market is any sell-off in the emerging markets due to lift-off in interest rates by the US-Fed.

We have repositioned the portfolios of our equity related funds and SMAs based on our capital market expectations and macroeconomic outlook.

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In line with market expectations, the State Bank of Pakistan (SBP) maintained the discount rate at 7.0% and policy rate at 6.5% in its bi monthly Monetary Policy Review in July. SBP cited the following competing factors behind this monetary policy decision (1) benign inflation 2) comfortable external account position 3) contained fiscal deficit 4) potential upward pressure on inflation from possible increase in energy tariffs in FY16, (5) adverse impact of floods. Inflation as measured by CPI for the July 15 clocked at 1.8% on a year-on-year basis as compared to last month reading of 3.2%.

Turning to the money market, in the two T-Bills auctions during the month, an amount of Rs.331 billion was accepted (realized amount) against the target of Rs.275 billion and maturity of Rs.149 billion. The cut-off annualized yields for the last T-Bill auction were noted at 6.93%, 6.95% and 6.96% for 3, 6 and 12 month tenors respectively while the bid pattern skewed towards the 12 months as compared to 6 and 3 months. In PIB auction during the month, MoF accepted an amount of Rs.58 billion (realized amount) against the target of Rs.100 billion and total participation of Rs.182 billion (realized amount) at a cut-off yield of 8.09% and 9%, in the 3 year and 5 year respectively. The bid pattern remained skewed towards 3 year tenor followed by 5 and 10 year tenors respectively.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations. We are closely monitoring the developments in the capital markets and will rebalance the portfolio of our fixed income funds and SMAs accordingly.

Our Contacts

Contact our Investment Consultant for free Investment advice

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